

**STATE OF ALABAMA
DEPARTMENT OF INSURANCE
MONTGOMERY, ALABAMA**

REPORT OF EXAMINATION OF

MUTUAL SAVINGS FIRE INSURANCE COMPANY

ST. LOUIS, MISSOURI

AS OF DECEMBER 31, 2014

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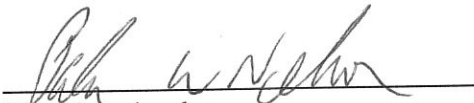
EXAMINER'S AFFIDAVIT

**STATE OF ALABAMA
COUNTY OF MONTGOMERY**

Palmer W. Nelson, CFE, being duly sworn, states as follows:

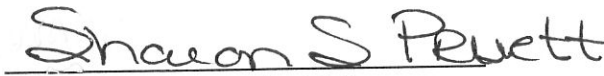
1. I have the authority to represent Alabama in the examination of Mutual Savings Fire Insurance Company.
2. Alabama is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination workpapers and examination report, and the examination of Mutual Savings Fire Insurance Company was performed in a manner consistent with the standards and procedures required by the State of Alabama.

The affiant says nothing further.


Examiner-in-charge

Subscribed and sworn before me by Palmer W. Nelson on this 11th day of February, 2015.

(SEAL)


(Signature of Notary Public)

My commission expires 04/27/19.



ROBERT BENTLEY
GOVERNOR

JIM L. RIDLING
COMMISSIONER

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DEPUTY COMMISSIONER
CHARLES M. ANGELL

CHIEF EXAMINER
RICHARD L. FORD

STATE FIRE MARSHAL
EDWARD S. PAULK

GENERAL COUNSEL
REYN NORMAN

Montgomery, Alabama
February 11, 2016

Jim L. Ridling, Commissioner
Alabama Department of Insurance
201 Monroe Street, Suite 502
Montgomery, AL 36104

Dear Commissioner:

Pursuant to your authorizations and in compliance with the statutory requirements of the State of Alabama and the resolutions adopted by the National Association of Insurance Commissioners (NAIC), an examination has been made of the affairs and financial condition of

Mutual Savings Fire Insurance Company
St. Louis, Missouri

at its home office located at 12115 Lackland Road, St. Louis, Missouri 63146 as of December 31, 2014. The report of examination is submitted herewith. Where the description "Company" appears herein without qualification, it will be understood to indicate Mutual Savings Fire Insurance Company.

EQUAL OPPORTUNITY EMPLOYER

SCOPE OF EXAMINATION

We have performed our multi-state examination of Mutual Savings Fire Insurance Company. The last examination covered the period of January 1, 2005 through December 31, 2009. The current examination covers the period of January 1, 2010 through December 31, 2014.

The examination was conducted in accordance with applicable statutory requirements of the *Code of Alabama, 1975*, as amended, the Alabama Insurance Department regulations, bulletins and directives, and in accordance with the procedures and guidelines promulgated by the NAIC, as deemed appropriate, and in accordance with generally accepted examination standards and practices.

The examination was conducted in accordance with the NAIC *Financial Condition Examiners Handbook*. The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

The Company's annual statements for each year under examination were compared with or reconciled to the corresponding general ledger account balances.

An examination of the Company's information technology systems (IT) was conducted concurrently with the financial examination. The IT examination included a review of management and organizational controls, logical and physical security controls, changes in applications controls, system and program development controls, contingency planning controls, service provider controls, operations controls, processing controls, e-commerce controls, and network and internet controls.

A market conduct examination was performed concurrently with the financial examination. The examination included reviews of the Company's territory and plan of operation, management and operations, claims, complaint handling, marketing and sales, policyholder services, producer licensing, underwriting and rating, and privacy standards.

Deloitte & Touch, LLP was the Company's certified public accountants (CPAs) for the years under examination. The examiners reviewed the CPAs' workpapers, copies of which were incorporated into the examination as deemed appropriate.

A signed certificate of representation was obtained during the course of the examination. In this certificate, management attested to having valid title to all assets and to the nonexistence of unrecorded liabilities as of December 31, 2014.

ORGANIZATION AND HISTORY

The Company was incorporated in Decatur, Alabama, on September 16, 1971, under the laws of the State of Alabama and commenced business on January 2, 1973. The Certificate of Incorporation stated that the objects and purposes of the corporation were "to engage in, maintain and transact general fire and casualty insurance business, and to do all things necessary and incidental thereto." The Articles of Incorporation were filed and recorded in the office of the Judge of Probate of Morgan County, Alabama.

The original charter provided that the total authorized capital was 1,000,000 shares of common stock with a par value of \$1 per share. The Company was capitalized initially with \$200,000 of Paid-up capital and \$300,000 of contributed surplus. On July 15, 1975, the Company increased its contributed surplus to \$500,000, through the sale of additional shares of common stock. The Company increased its common stock par value to \$3 per share on December 18, 1992, thereby increasing its Paid-up capital to \$1,500,000.

On December 4, 1998, Primesco, Inc., a Delaware corporation, acquired 100% of the outstanding common stock of Mutual Savings Life Insurance Company (MSLIC), the sole stockholder of the Company.

During March 2008, a Form "A" filing made by Unitrin, Inc. was approved by the Alabama Department of Insurance. On April 1, 2008, Primesco, Inc. and its subsidiary MSLIC were acquired by Unitrin, Inc., a Delaware corporation, along with the Company. On June 1, 2009, United Insurance Company of America purchased MSLIC and the Company from Primesco, Inc. Effective January 1, 2009, the Company entered into a 100% quota share reinsurance agreement with Trinity Universal Insurance Company, a Texas-domiciled, affiliated company. The agreement was approved on February 17, 2009 by the Alabama Department of Insurance.

The Company's authorized capital has not changed during the five-year period covered by this examination. At December 31, 2014, the Company's Annual Statement reflected outstanding capital stock totaling \$1,500,000, consisting of 500,000 shares of \$3 par value common stock; Gross paid in and contributed surplus of \$2,400,000; and, Unassigned funds (surplus) of \$(71,379).

MANAGEMENT AND CONTROL

Stockholders

The Company is a stock corporation with ultimate control vested in its stockholders. At December 31, 2014, 100% of the Company's issued and outstanding common stock was owned by Mutual Savings Life Insurance Company (MSLIC), an Alabama corporation. MSLIC's ultimate parent company is Kemper Corporation.

Board of Directors

Members elected to the Board of Directors by the sole shareholder and serving at December 31, 2014, were as follows:

<u>Director</u>	<u>Residence</u>	<u>Principal Occupation</u>
Charles Stanley Belter	Birmingham, Alabama	Kemper Home Service Companies District Manager
John Michael Boschelli	Geneva, Illinois	Senior Vice President and Chief Investment Officer of Kemper Corporation
Thomas David Myers	University City, Missouri	President of Mutual Savings Fire Insurance Company

Committees

No committees of the board were appointed during the examination period. The audit committee of Kemper Corporation includes in its charter the purpose of providing oversight for each of the insurance subsidiaries, including the Company.

Officers

Officers of the Company elected by the Board of Directors and serving at December 31, 2014 were as follows:

<u>Officer</u>	<u>Title</u>
Thomas David Myers	President
Clark Hubbard Roberts	Treasurer
Scott Forrest Snider	Secretary
John Robert Camillo	Senior Vice President
Kyle Douglas Conrad	Senior Vice President
Tal Brian Kaufman	Senior Vice President
Richard John Miller	Senior Vice President

Management and Service Agreements

The following agreements between the Company and its affiliates were in effect at the December 31, 2014 examination date.

Insurance Administrative Agreement

An Insurance Administrative Agreement was made and entered into as of September 1, 2008 by and between the Company and United Insurance Company of America (UICA). This agreement was first filed with the Alabama Department of Insurance on July 21, 2008, and was approved on July 29, 2008.

Under the terms of the agreement, UICA will provide the following administrative services:

- Underwriting services for the issuance of insurance policies in accordance with the underwriting guidelines.
- Print policies, forms, and supplies bearing the Company's logo. The policies, forms, and supplies will remain the sole property of the Company.
- Properly rate and issue policies, binders, and endorsements in accordance with the Company's procedural guidelines and will administer and service all the Company's business.
- Data processing support necessary for the timely servicing of the Company's business.
- Maintain a phone center at its administrative office to assist and aid in responding to all inquiries received by field personnel and customers.
- Defend, adjust, settle, and pay all new and existing claims.
- Compile all statistical data necessary to comply with all financial and regulatory reporting requirements.
- Legal support for all business and see that the operations conducted by the Company are in compliance with all applicable laws and regulations.

The Company will reimburse UICA for all direct, shared, and out-of-pocket expenses. Any expenses payable by the Company on which an amicable understanding or settlement cannot be reached will be settled by a certified independent public accounting firm not currently representing either party.

The book of records will be maintained by UICA and the Company. The books of UICA will be owned and remain the separate property of UICA and the records of the Company will be owned and remain separate property of the Company. The records of the Company and data associated with such records will be maintained and made available to the Alabama Commissioner of Insurance or the Commissioner's designees.

The Company will indemnify and hold UICA harmless from and against any and all liability, loss, costs, damages, claims, suits, and other legal proceedings, attorney fees, and expenses of any kind or nature to which UICA may become subject as a result of the provisions of services under the agreement, other than as a result of UICA's willful misconduct or gross negligence.

The agreement will be unlimited as to its duration unless terminated by either party upon not less than thirty days prior written notice to the other. The agreement may be amended from time to time by a written instrument executed by the parties to the contract.

The agreement shall be construed, interpreted, and enforced in accordance with the laws of the State of Alabama, excluding any choice or law rules that may direct the application of the laws of another jurisdiction.

Service Agreement

A service agreement was made and entered into as of December 12, 2012, by and between the Company and Kemper Corporate Services (formerly known as Unitrin Services Company) (KCS).

The agreement was first filed with the Alabama Department of Insurance on November 13, 2012 (amendments were filed on December 5th and 6th, 2012), and Alabama Department of Insurance approved in correspondence dated December 13, 2012.

According to the terms of the agreement, the Company will receive and pay for the following services:

- General Services: administration of post-retirement life and medical benefits, automobile fleet management, benefit plan regulatory reporting and support, capital project review and evaluation, cash management and bank relations, corporate secretarial functions, financial accounting and reporting, financial planning and analysis of results of operations, human resource management (including recruitment, training, and salary and performance administration), internal audit including field audit, investment accounting, legal support and advice, loss reserving and actuarial reports and opinions, maintenance of benefit plans (such as life, health, disability, pension, and savings benefit plans), payroll processing and administration, purchasing and accounts payable, real estate management, risk management (including corporate insurance), tax accounting and tax advice, tax return preparation, trade execution and investment analysis, and consulting services in other areas, including, but not limited to media relations, branding initiatives, and other corporate functions. In exchange for these general services, the Company agrees to pay KCS its share of the corporate expenses as follows.

The Company agreed to pay KCS its share of the corporate expenses incurred by KCS for the benefit of its affiliates. The charges and fees shall be fair and reasonable; the corporate expenses associated with such general services shall be allocated in a fair and reasonable basis in conformity with customary insurance practices, and shall include no added profit factor or markup. Direct expenses shall be charged on an actually incurred basis. Out of pocket expenses shall be reimbursed based on those directly attributable to the Company. Shared or indirect expenses shall be apportioned to Company based on cost studies, usage metrics of services provided, transactions processed, hours worked and/or any other generally accepted allocation method, in accordance with Statement of Statutory Accounting Principle (SSAP) No. 70 (or any successor SSAP replacing or amending the terms of SSAP No. 70), including, but not limited to those based on earned or written premium, net investment income, special studies of employee activities, salary ratios, premium ratios (earned or written premiums), number of employees or participants, assets, or equity.

- Computer and Information Technology Services: KCS will provide data processing and other information technology services ("computer services") to the Company using the following components (the "Systems") as KCS may from time to time maintain at any facilities of its own or of its subsidiaries, affiliates or contractors: Mainframe, midrange and minicomputer and other central processors and controllers; data storage devices, cartridge and tape drives; MVS, UNIX, and other operating system software; database management software (exclusive of applications running under such software); CICS and other transaction processing software; groupware, middleware, and network software; routers and other network and telecommunications equipment and lines located at its data center facilities; and internet and intranet access software and systems. Company, or KCS at its

option, shall supply terminals, personal computers, workstations, monitors, modems, printers and other equipment necessary to use the Systems ("Company Equipment").

To the extent possible, the Company may run batch processing jobs on the Systems, as well as real time operations. KCS will supply personnel for computer operations, network operations, network security, consulting services, general Systems support and consultation, and any other services deemed necessary for the efficient operation of KCS' provision of the Computer Services, provided, however, that the Company shall otherwise be responsible for performing its own operations with and on the Systems. The Company may access the Systems during hours published by KCS, which hours may be changed by KCS from time to time at its discretion. KCS will cooperate to the extent reasonably practicable for use of the System outside such hours.

KCS shall have sole responsibility for maintaining the Systems. MSFIC, or KCS at its option, shall have responsibility for maintaining Company Equipment. The Company shall select applications software after consulting with KCS to determine compatibility with the Systems, and for loading it on the Systems, maintaining, debugging, modifying, and otherwise using such software. The Company will be responsible for conforming to KCS' published policies, and shall access the Systems using said policies. KCS will perform regular backup of the Systems, and agrees to assist the Company in backing up whatever applications software and data the Company may have on the Systems, provided that the Company shall remain solely responsible for determining the applications and data to be backed up, the frequency of such backups, and the verification of such backups.

- Equipment: KCS may, at the Company's request, purchase, lease, license, or otherwise acquire computer hardware and equipment ("Equipment") on behalf of the Company. Said equipment may be installed at any location within the United States that the Company may request. Equipment may include, but not be limited to: mainframe computers, midrange computers, minicomputers, personal computers, computer workstations, data storage devices, drives, tapes, cartridges, laser disk devices, "juke boxes", monitors, printers, plotters, modems, multiplexers, telecommunications devices, scanners, imaging systems, local and wide area network equipment, as well as cable, connectors, chips, cards, boards, and any operating software or utilities relating to any of the foregoing.
- Software: KCS may, at the Company's request, license or otherwise acquire computer software ("Software"). The license for such Software and any agreements may contain reasonable terms and conditions agreeable to KCS relating to: the cost, duration and type of license; transferability of the license; vendor warranties and indemnities; maintenance and support obligations of the vendor; options, discounts, or credits on future licenses by the Company, KCS or affiliates; acquisition of software on an evaluation basis; and the right of the licensee to obtain source code upon events of default by the vendor (source code escrows).

The licensee under such license may be KCS, the Company, or an affiliate, provided that the Company acquires necessary usage rights. The license of any Software may allow the use of such Software by any affiliate of KCS or the Company, or the right of any such entities to

license or acquire additional copies of Software, so long as the Company's usage rights aren't impeded.

- Consulting and Other Services: KCS shall provide information technology consulting and related services to the Company through its data center employees and other technical personnel, subject to the availability of personnel. Such services shall include: pre-acquisition evaluation of Equipment or Software; negotiation or advice concerning the terms and conditions of proposed acquisitions of Equipment or Software; implementation and/or installation of Equipment or Software; advice or assistance in the use, maintenance, enhancement, reconfiguration, or replacement of Equipment or Software; advice and assistance relative to network, data and systems security issues; and advice and assistance with disaster recovery capabilities.
- Service Charges: As consideration for Computer Services provided above, the Company agrees to pay KCS its share of the corporate expenses as follows: The fees shall be fair and reasonable, shall be allocated in accordance with the provisions of Alabama Insurance Laws and Regulations, and shall include no added profit factor or markup. Direct expenses will be charges on an actually incurred basis; out of pocket expenses shall be reimbursed based on those directly attributable to the Company. Shared expenses will be apportioned to MSFIC based on cost studies, usage metrics, transactions processed, hours worked, and/or any other generally accepted allocation method in accordance with regulations.
- Service Charges for Data Processing and Systems-Related Services: If KCS elects to bill the Company based on service projections, it shall project its costs for maintaining and operating the Systems annually (or other such frequency), and shall invoice the Company no frequently less than monthly for its proportional share, plus any direct costs. The Company shall be invoiced for all taxes, if any, levied on KCS with respect to the Company's usage of the Systems. Within 45 days after the end of each calendar quarter, KCS shall reconcile its budgeted cost and the Company's projected usage with KCS' actual cost and the Company's actual usage for said period, and should the usage be less than budgeted, KCS will reimburse the Company or apply such excess for the Company's usage for the following period. Should usage be greater than budgeted, KCS will bill the Company for usage in excess of budgeted.
- Service Charges for Equipment and Software Acquisitions Costs: at KCS' discretion, KCS may bill the Company for either: a) its proportionate amount of the cost of Equipment or Software, including shipping charges, sales and similar taxes, b) its proportionate share of KCS' lease or license cost for Equipment or Software, or c) a reasonable depreciation charge for Equipment or Software. In no event shall the cost to the Company for any acquisition by KCS of Equipment or Services be at terms less favorable than the Company could reasonably be expected to receive if it were to acquire such Software or Equipment directly.
- Service Charges for Consulting and Other Services: KCS may assess reasonable charges in relation to services rendered above, which shall be the blended hourly rate based on the average salary and employee benefit cost of KCS' information technology personnel, plus any applicable overhead costs, not to exceed the total hourly rate of \$250.00, adjusted annually for inflation, based on the consumer price index.

- General Provisions: For purposes of this agreement, an "affiliate" of KCS or the Company shall mean any corporation or other person controlling, controlled by, or under common control with either of them.

The Company agrees that any services to be provided by KCS may be outsourced, provided: 1) KCS shall remain primarily liable for the performance of services, 2) any affiliate-performed service shall be subject to regulatory approval, 3) affiliate-performed services will be charged at actual cost, without markup or profit, and third-party-provided services shall be charged at prices and on terms no less favorable than the Company could be expected to receive if the Company were to acquire such services directly from the third party.

KCS and the Company agree that the terms of this agreement are fair and reasonable, and shall be unlimited in duration unless terminated by either party with not less than 60 days' prior written notice. This agreement may be amended from time to time, subject to the approval of both parties and any regulatory authorities.

Invoices for services previously described shall be forwarded on or before the 30th day of the month following the date the services were rendered or costs incurred. Payment for such invoices shall be due 30 days after receipt of invoices. KCS and the Company shall maintain separate books, and each company's books shall remain each company's separate property. The records will be made available upon request to the Alabama Commissioner of Insurance or the Commissioner's designees. KCS shall hold the Company harmless for any damages, judgments, settlements, costs and expenses that arise out of or result from KCS' negligence or intentional misconduct in providing the services in this agreement. If any part of this agreement is contrary to applicable law or regulation, that provision shall not apply and shall be omitted to the extent that it is contrary to law, but the remainder of the agreement shall be valid, and remain in force. This agreement shall be interpreted in accordance with the laws of the State of Alabama, excluding any choice of law rules that may direct the application of the laws of another jurisdiction.

Federal Income Tax Agreement

Agreement entered into effective tax year ending December 31, 1995 between Unitrin, Inc. (Parent), and United Insurance Company of America, Financial Indemnity Company, The Pyramid Life Insurance Company, Trinity Universal Insurance Company of Kansas, Inc., Southern States General Agency, Inc., Southern States Finance Corporation, Fireside Securities Corporation, Fireside Thrift Co., Fireside Mortgage Loans, United Casualty Insurance Company of America, Union National Life Insurance Company, Lehigh Valley Insurance Company, Milwaukee Insurance Group, Inc., Milwaukee Safeguard Insurance Company, Milwaukee Guardian Insurance, Inc., Alpha Property & Casualty Insurance Company, USA Insurance Services, Inc., and Union National Fire Insurance Company (referred to collectively as "Affiliates").

Agreement is to establish a method of payment of taxes under various Sections of Internal Revenue Service (IRS) Code, as a consolidated group for Federal Income Tax (FIT), rather than individually. All Affiliate members of the group will pay to the Parent the amount of regular FIT, or receive from the Parent the amount of refund of regular FIT, that they would have paid/received had the

Affiliates filed FIT returns on their own. This applies to FIT, Alternative Minimum Tax, and Environmental Tax. Affiliates will have use of their own operating losses and other tax credits; the accrual method of accounting will be used. The Affiliates shall settle estimated FIT payments on or about the 15th day of April, June, September, and December of each year, with an additional settlement on or about March 15th the following year with the filing of the annual FIT return or extension, and will be made via check or wire transfer. The FIT records will be maintained at the Parent's home office.

An amendment to the Federal Income Tax Agreement entered into December 31, 1995 between Kemper (f/k/a Unitrin, Inc.) ("Parent") certain affiliates ("Affiliates") was entered into in order to establish the method of settlement of Federal Income Tax (FIT) payments and refunds between Parent and Affiliates. Mutual Savings Fire Insurance Company, and Mutual Savings Life Insurance Company (together, "New Affiliates") became indirect, wholly-owned subsidiaries of Parent on April 1, 2008. New Affiliates are eligible to join the consolidated FIT return with Parent once they have been members of the affiliated group for a period of 5 full taxable years from the date of acquisition. New Affiliates will be included in the Consolidated FIT return with Parent for the calendar year ending December 31, 2014, commencing with the FIT return due March 15, 2015, or the date to which said return may be extended.

It was agreed as follows:

- Parent consents to New Affiliates becoming parties to the Agreement.
- Each of the New Affiliates agrees to the terms and conditions of the Agreement and shall be included within the term Affiliates as used in the Agreement.
- This Amendment shall apply commencing with the consolidated FIT Parent group return for the calendar year ending December 31, 2014, with the return being due March 15, 2015, or such date as it may be extended.
- Except as above, all terms and conditions of the Agreement remain in full force and effect.
- A copy of this Amendment shall be attached to and become part of the Agreement.
- This Amendment may be executed in one or more counterparts, each will be deemed an original, all of which taken together shall constitute one and the same instrument.

100% Quota Share Reinsurance Agreement

A 100% Quota Share Reinsurance Agreement was made and entered into and between the Company and its affiliated insurer, Trinity Universal Insurance Company (Trinity). The agreement was first executed on March 25, 2009, and filed with the Alabama Department of Insurance on December 11, 2008. The agreement was approved on February 17, 2009.

The agreement was effective January 1, 2009 and will continue until terminated by either party with written notice given to the other party twelve months in advance of the termination date. For details, see Reinsurance Ceded under the caption REINSURANCE.

Assignment and Consent Agreement

The Assignment and Consent Agreement was entered into and between the Company, Trinity Universal Insurance Company (Trinity), and United Insurance Company of America (UICA)

effective January 1, 2009. By entering into this Assignment and Consent Agreement, UICA accepted the responsibility for providing administrative services to the Company which was the obligation of Trinity Subject to the 100% Quota Reinsurance Agreement between the Company and Trinity.

According to the Assignment and Consent Agreement, the responsibilities of Trinity and UICA to the Company are as follows:

- Trinity assigns its responsibility and obligations to provide administrative services to UICA as required by the 100% Quota Share Reinsurance Agreement between the Company and Trinity. Trinity will reimburse the cost of providing those services by assuming and performing the Company's payment obligations under the Insurance Administrative Agreement.
- UICA accepts the responsibility and obligations and will perform the administrative responsibility and obligation of Trinity assumed under the 100% Quota Share Reinsurance Agreement. UICA consents to Trinity's assumption of the Company's payment obligation under the terms of the Insurance Administrative Agreement.
- The Company consents to the above assignments of Trinity's administrative responsibility and obligations to UICA and agrees that the services will be performed in accordance with the Insurance Administrative Agreement.
- The Assignment and Consent Agreement will continue in accordance with the terms of the Insurance Administrative Agreement unless terminated by the parties to the agreement with not less than ninety days prior written notice to each of the other parties.
- The Assignment and Consent Agreement shall be construed and interpreted in accordance to the internal laws of the State of Alabama, excluding any choice of law rules that may direct the application of the laws of another jurisdiction.
- The Assignment and Consent Agreement shall inure to the benefit of the parties and be binding upon this successors and assigns.

Conflicts of Interest

The conflict of interest statements filed by the officers and directors of the Company were reviewed for the period covered by this examination. There were no disclosures that indicated that any officers or directors had a conflict of interest.

CORPORATE RECORDS

The Articles of Incorporation and By-Laws and amendments thereto were inspected during the course of the examination and appeared to provide for the operation of the Company in accordance with usual corporate practice and applicable statutes and regulations. There were no amendments since the last examination.

Minutes of the meetings of the Stockholder and Board of Directors were reviewed for the period under examination. The minutes appeared to be complete with respect to actions taken on matters before the respective bodies for deliberation and action.

HOLDING COMPANY AND AFFILIATE MATTERS

The Company is subject to the Alabama Insurance Holding Company Regulatory Act as defined in ALA. CODE §27-29-1(1975). In connection therewith, the Company is registered with the Alabama Department of Insurance as registrant of an Insurance Holding Company System. The Company is responsible for holding company registration and periodic filings in accordance with ALA. CODE §27-29-4(1975), and ALA. ADMIN. CODE 482-1-055(1994).

The review of the filings indicated that the required disclosures were included in the Company's filings.

ORGANIZATIONAL CHART

The following chart presents the identities and interrelationships among all affiliated persons within the Insurance Holding Company System at December 31, 2014.

SCHEDULE Y - INFORMATION CONCERNING ACTIVITIES OF INSURER MEMBERS OF A HOLDING COMPANY GROUP

PART 1 - ORGANIZATIONAL CHART

Kemper Corporation (DE) FEIN: 95-4255452

Trinity Universal Insurance Company
(TX-100%) FEIN: 75-0620550; NAIC: 19887

United Insurance Company of America
(IL-100%) FEIN: 36-1896670; NAIC: 69930

KAHG LLC
(IL-100%) FEIN: 27-3557296

Kemper Corporate Services, Inc.
(IL-100%) FEIN: 36-4105161

Capitol County Mutual Fire Insurance Company (NAIC# 29211, domiciled in TX) is affiliated with The Reliable Life Insurance Company by virtue of a management agreement.

Old Reliable Casualty Company (NAIC# 36625, domiciled in the state of Missouri) is affiliated with Trinity Universal Insurance Company by virtue of its affiliation with Capitol County Mutual Fire Insurance Company.

Unitrin County Mutual Insurance Company (NAIC# 29351, domiciled in TX) is affiliated with NCM Management Corp. by virtue of a management agreement.

Senior Loan Fund IV, LLC ("SLFIV") is an affiliate of Trinity by virtue of Trinity having 50% control of the board of SLFIV, with the other 50% vested in Fifth Street Finance Corp.

Alpha Property & Casualty Insurance Company (WI-100%) FEIN: 39-1344101; NAIC: 38156
Charter Indemnity Company (TX-100%) FEIN: 75-1636168; NAIC: 37524
Direct Response Corporation (DE-100%) FEIN: 04-3294619

Response General Agency of Texas, Inc. (CT-100%) FEIN: 14-1840692

Response Insurance Company (IL-100%) FEIN: 04-2794993; NAIC: 43044

Kemper Financial Indemnity Company (IL-100%) FEIN: 91-1119010; NAIC: 39004

Response Worldwide Insurance Company (IL-100%) FEIN: 39-1341441; NAIC: 26050

301 Oxford Valley Insurance Agency, Inc. (PA-100%) FEIN: 23-2712816

Connecticut Casualty Insurance Agency, Inc. (CT-100%) FEIN: 06-1626198

Warner Insurance Company (IL-100%) FEIN: 36-3423817; NAIC: 26085

Response Worldwide Direct Auto Insurance Company (IL-100%) FEIN: 61-6027355; NAIC: 20133

Financial Indemnity Company (IL-100%) FEIN: 95-1466743; NAIC: 19852

Kemper General Agency, Inc. (TX-100%) FEIN: 75-1865314

Kemper Independence Insurance Company (IL-100%) FEIN: 36-4230019; NAIC: 10914

Merastar Industries LLC (DE-100%) FEIN: 98-0426067

Merastar Insurance Company (IL-100%) FEIN: 62-0928337; NAIC: 31968

Security One Insurance Agency (TN-100%) FEIN: 20-3046396

NCM Management Corporation (DE-100%) FEIN: 75-2538407

Union National Fire Insurance Company (LA-100%) FEIN: 72-6019774; NAIC: 12998

United Casualty Insurance Company of America (IL-100%) FEIN: 23-1614367; NAIC: 11142

Unitrin Advantage Insurance Company (NY-100%) FEIN: 13-3974181; NAIC: 10881

Unitrin Auto and Home Insurance Company (NY-100%) FEIN: 52-1752227; NAIC: 16063

Unitrin Direct Insurance Company (IL-100%) FEIN: 36-4013825; NAIC: 10226

Unitrin Direct Property & Casualty Company (IL-100%) FEIN: 36-4230008; NAIC: 10915

Kemper Direct General Agency, Inc. (TX-100%) FEIN: 75-2874538

Unitrin Preferred Insurance Company (NY-100%) FEIN: 13-5460208; NAIC: 25909

Unitrin Safeguard Insurance Company (WI-100%) FEIN: 39-1401314; NAIC: 40703

Valley Property & Casualty Insurance Company (OR-100%) FEIN: 93-1217821; NAIC: 10698

Mutual Savings Life Insurance Company (AL-100%) FEIN: 63-0148960; NAIC: 66397
Mutual Savings Fire Insurance Company (AL-100%) FEIN: 63-0599704; NAIC: 31178

Reserve National Insurance Company (OK-100%) FEIN: 73-0661453; FEIN: 68462

Summerset Marketing Company (OK-100%) FEIN: 73-1281615

National Association of Self-Employed Business Owners (OK-100%) FEIN: 73-1354019

Rural American Consumers A National Association (OK-100%) FEIN: 73-1288167

The Reliable Life Insurance Company (MO-100%) FEIN: 43-0476110; NAIC: 68357

Family Security Funerals Company (TX-100%) FEIN: 43-1511864

Union National Life Insurance Company (LA-100%) FEIN: 72-0340280; NAIC: 69779

MARKET CONDUCT ACTIVITIES

Plan of Operation

The Company's lines of business include fire and allied lines of insurance. The Company has outstanding policies for contents coverage and dwelling coverage for low-valued dwellings in Alabama, Mississippi, and to lesser extent, Georgia. The Company continued to renew policies for dwelling coverage but ceased issuing new dwelling policies in 2011. New policies are limited to contents coverage in the same territory. The Company also participates to a minor degree, in involuntary property pools in each state where it writes business. The insurance products are offered to low-middle income households through a home service approach.

Territory

As of December 31, 2014, the Company was licensed to transact business in four states: Alabama, Georgia, Louisiana, and Mississippi.

The Certificates of Authority were inspected for the period under review and found to be in order.

Policy Forms and Underwriting

The examiner verified samples of Alabama policy premiums, policies issued, rejected applications for insurance and cancellations for compliance with Alabama statutes and regulations. The Company's policy premiums were calculated in accordance with Company underwriting guidelines and filed rates. There were not any issues noted in the review of rejected applications and the review of cancelled policies.

Policy forms

The examiner determined that all forms, endorsements and premium rates utilized in Alabama during the examination period had been properly filed and approved by the Alabama Department of Insurance.

Rates and Statistical Reporting

The Company does not subscribe or report to any statistical service for its Alabama policies.

Advertising and Marketing

The Company had a limited number of advertisements during the examination period. Brochures and advertising materials were distributed to potential customers through the Company's agents.

The Company's website (<http://www.kemperhsc.com/mutualsavings.htm>) provided information about locating a district office with contact information for those offices.

The Company does not allow agent's use of their own websites, advertisements, solicitation, or marketing materials. All advertisement and sales materials require Company approval prior to use and distribution.

Claims Review

The examiner reviewed Alabama paid, denied, and closed litigated claims during the examination period for completeness, accuracy and compliance with ALA. ADMIN. CODE 482-1-125(2003).

Paid Claims

A sample of 82 Alabama paid claims from a population of 220 paid claims during the year 2014 was reviewed for compliance with Alabama Laws and regulations and compliance with policy provisions, timeliness of payment and adequacy of documentation.

The examiners determined that there were discrepancies between the Company's claim files and the Company's policy administration system. In twenty-six instances the claim report date on the claim file did not agree with the claim report date on the policy administration system. Since there were discrepancies between the original paid claims record and the policy administrative system, the Company was not in compliance with ALA. CODE §27-27-29(a)(1975), which states: "Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep in this state complete records of its assets, transactions, and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted."

The examiners also determined that one claim in the sample of 82 paid claims took 111 days for payment, which was not in accordance with ALA. ADMIN. CODE 482-1-125.07(2003), which states: "Within thirty (30) days, or the number of days specified in the policy, after receipt by the insurer of properly executed proofs of loss, the first party claimant shall be advised of the status of acceptance or denial of the claim by the insurer."

Denied Claims

The examiner selected a sample of 82 Alabama denied claims from a population of 389 during the examination period. The examiner reviewed the reasons for the denials, documentation that supported the Company's position for denying payment, and the amount of time it took the Company to acknowledge the claim with the claimant. The Company did not acknowledge one claim in accordance with ALA. ADMIN. CODE 482-1-125.06(2003), which requires:

- (1) Every insurer, upon receiving notification of a first party claim from a first party claimant shall, within fifteen (15) days, acknowledge the receipt of such notice unless payment is made within that period of time. If an acknowledgement is made by means other than writing, an appropriate notation of the acknowledgement shall be made in the claim file of the insurer and dated. Notification given to a producer of an insurer shall be notification to the insurer. Acknowledgement by a producer of an insurer as required above shall satisfy the requirements of this paragraph.

The examination indicated that it took twenty days to acknowledge the claim.

Policyholder Complaints

The Company recorded 29 Alabama complaints in its complaint register during the period under examination. The examiner reviewed all of the Alabama complaint files in the register. The functional cause of the complaints was for the following reasons: (1) poor customer service, (2) not following underwriting procedures, (3) disputes regarding claims denials, (4) payment discrepancy and (5) unsatisfactory claim settlements.

One of the Alabama complaints involved an issue of not sending a cancellation notice to the policyholder. The Company acknowledged not following its underwriting guides by not sending the cancellation notice in accordance with ALA. CODE §27-22-42(6)(1975), which states: "Policyholders shall have the right to receive in writing from their insurance company the reason for any cancellation of coverage and a minimum number of days' notice of cancellation of coverage, subject to applicable federal or state insurance law and regulation."

The Company did not send delay notices to three claimants as required by ALA. ADMIN CODE 482-1-125.07(2003), which states:

If the insurer needs more time to determine whether a first party claim should be accepted or denied, it shall so notify the first party claimant within thirty (30) days or the time period specified in the policy after receipt of the proofs of loss, giving the reasons more time is needed. If the investigation remains incomplete, the insurer shall, forty-five (45) days from the initial notification and every forty-five (45) days thereafter, notify the first party claimant in writing, verbally or electronically (e-mail) of the reasons additional time is needed for investigation.

Compliance with Producer Licensing Requirements

A sample of 116 Alabama policies from a population of 92,074 was selected from the Company's direct written business during the year 2014. The examiner verified that the Company's producers were properly licensed and appointed prior to writing business on behalf of the Company.

A sample of 113 terminated producers was selected from a population of 742. The examiner verified that the Company's producers were properly terminated and the Company mailed termination notices to its producers and sent notification to the ALDOI.

Privacy Standards

Compliance with ALA ADMIN CODE 482-1-122(2000)

The Company's PRIVACY NOTICE was reviewed for compliance with ALA. ADMIN. CODE 482-1-122 (2002). The Company sent out the notices to new policyholders when a policy was written or renewed and annually thereafter. The Company provided notices to its customers that indicated the types of information collected, the way the information is used and the manner that it is collected. The notice also informed the customer that the Company did not disclose any information to any nonaffiliated third parties.

The Company does not share customer and/or consumer personal information with any

nonaffiliated third parties. The Company had proper controls in place for employees and producers for the disclosure of nonpublic personal financial, health or medical information.

REINSURANCE

Reinsurance Assumed

Schedule F Part 1 – Assumed Reinsurance indicated that the Company is a party to pooling arrangements with certain state mandatory risk pool associations. The assumed premiums were \$195,876 or approximately 4.15% of the total premiums written by the Company. Typically, a company's participation is calculated by the pool as a percentage of written or earned premiums to the total of all premiums written or earned in a state.

Reinsurance Ceded

Schedule F – Part 3 Ceded Reinsurance indicated that the Company had one agreement with Trinity Universal Insurance Company (Trinity), an affiliated Texas insurance company. The 100% Quota Share Reinsurance Agreement was effective January 1, 2009, and continues in force until terminated by either party by written twelve month notice to the other party.

The business insured by the Company and assumed by Trinity under the 100% quota share agreement is: “(i) all losses incurred prior to the Effective Date under policies, binders, contracts, certificates, agreements or renewals of insurance and reinsurance issued or entered into by the Company (the Company's coverage of such losses sometimes hereinafter referred to as the “Existing Business”), and (ii) all losses incurred on or after the Effective Date under policies, binders, contracts, certificates, agreements or renewals of insurance and reinsurance issued or entered into by the Company (the Company's coverage of such losses sometimes hereinafter referred to as the “New Business”).”

The agreement was filed with the Alabama Department of Insurance and the approval was granted on February 17, 2009.

ACCOUNTS AND RECORDS

The Company maintained its accounting, premiums and losses data electronically. The Company maintained additional electronic workpapers, reconciliations and statements in its database of imaged records.

The Company's independent audit was performed by Deloitte & Touch, LLP, a certified public accounting firm.

The Company did not provide evidence of filing for approval or evidence granting approval by the Alabama Department of Insurance to file their annual audited financial statements for 2010 and 2011 on a consolidated basis with Trinity Universal Insurance Company and other affiliated companies in accordance with ALA. ADMIN. CODE 482-1-141.08(2003), which states:

An insurer may make written application to the commissioner for approval to file audited consolidated or combined financial statements in lieu of separate annual audited financial

statements if the insurer is part of a group of insurance companies that utilizes a pooling or 100 percent reinsurance agreement that affects the solvency and integrity of the insurer's reserves and the insurer cedes all of its direct and assumed business to the pool.

FINANCIAL STATEMENTS

The financial statements included in this report were based on the statutory financial statements filed by the Company with the Alabama Department of Insurance and present the financial condition of the Company for the period ending December 31, 2014. The accompanying comments on the financial statements reflect any examination adjustments to the amounts reported in the annual statement and should be considered an integral part of the financial statements.

Statements of Assets, Liabilities, Surplus and Other Funds	Pages 20
Summary of Operations	Page 21
Capital and Surplus Account	Page 22

MUTUAL SAVINGS FIRE INSURANCE COMPANY
STATEMENT OF ASSETS

For the Year Ended December 31, 2014

	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
ASSETS			
Bonds	\$ 2,532,611		\$ 2,532,611
Stocks: Common stocks	44,338		44,338
Cash (\$266,639 Sch. E-Part 1), cash equivalents (\$0 Sch. E – Part 2) & short-term investments (\$716,311, Sch. DA)	982,950		982,950
Subtotals, cash and invested assets	\$ 3,559,899		\$ 3,559,899
Investment income due and accrued	\$ 34,253		\$ 34,253
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	111,931	301	111,630
Amounts recoverable from reinsurer	143,680		143,680
Funds held by or deposited with reinsured companies	771,230		771,230
Net deferred tax asset	575,395	420,463	154,932
Receivable from parent, subsidiaries and affiliates	52,476		52,476
Deposits in pools and associations	352		352
TOTALS	\$ 5,249,215	\$ 420,764	\$ 4,828,451

MUTUAL SAVINGS FIRE INSURANCE COMPANY
STATEMENT OF LIABILITIES, CAPITAL AND SURPLUS

For the Year Ended December 31, 2014

LIABILITIES	
Reinsurance payable on paid losses and loss adjustment expenses (Sch. F, part 1, Column 6)	\$ 90,265
Other Expenses (excluding taxes, licenses and fees)	12,232
Taxes, licenses, and fees (excluding federal and foreign income taxes)	47,175
Current Federal and foreign income taxes	165,135
Advance Premium	67,484
Ceded reinsurance premiums payable (net of ceding commissions)	314,962
Remittances and items not allocated	1,138
Payable to parent, subsidiaries, and affiliates	290,711
Reserve for escheat funds	10,726
Total Liabilities	999,830
Common capital stock	1,500,000
Gross paid in and contributed surplus	2,400,000
Unassigned funds (surplus)	(71,379)
Surplus as regards policyholders	3,828,621
Total	\$4,828,451

**THE NOTES IMMEDIATELY FOLLOWING THE FINANCIAL STATEMENTS IN
THIS REPORT ARE AN INTEGRAL PART THEREOF.**

MUTUAL SAVINGS FIRE INSURANCE COMPANY
SUMMARY OF OPERATIONS
For the Years Ended December 31, 2014, 2013, 2012, 2011 and 2010

	2014	2013	2012	2011	2010
Underwriting Income					
Premiums earned					
Losses incurred					
Loss expenses incurred					
Other underwriting expenses					
Incurred	<u>\$1,335</u>	<u>\$5,107</u>	<u>\$56</u>	<u>\$42</u>	<u>\$49</u>
Total underwriting deductions	<u>1,335</u>	<u>5,107</u>	<u>56</u>	<u>42</u>	<u>49</u>
Net underwriting gain / (loss)	(1,335)	(5,107)	(56)	(42)	(49)
Investment Income					
Net investment income earned	157,462	145,950	180,941	198,491	189,507
Net realized capital gains / (loss)	<u>213,760</u>	<u>0</u>	<u>2,718</u>	<u>595</u>	<u>44,646</u>
Net investment gain / (loss)	371,222	145,950	183,659	199,086	234,153
Other Income					
Total other income					
Net income after dividends to policyholders, after capital gains tax and before all federal and foreign income tax	<u>\$369,887</u>	<u>\$140,843</u>	<u>\$183,603</u>	<u>\$199,044</u>	<u>\$234,104</u>
Federal and foreign income taxes Incurred	<u>52,845</u>	<u>(9,975)</u>	<u>14,638</u>	<u>18,889</u>	<u>58,402</u>
Net Income	\$317,043	\$150,818	\$168,965	\$180,155	\$175,702

THE NOTES IMMEDIATELY FOLLOWING THE FINANCIAL STATEMENTS IN
THIS REPORT ARE AN INTEGRAL PART THEREOF.

MUTUAL SAVINGS FIRE INSURANCE COMPANY
CAPITAL AND SURPLUS ACCOUNT
For the Years Ended December 31, 2014, 2013, 2012, 2011 and 2010

	2014	2013	2012	2011	2010
Surplus as regards policyholders, December 31 prior year	\$5,902,693	\$5,739,342	\$5,567,758	\$5,398,996	\$5,205,703
Net income	317,043	150,818	168,965	180,155	175,702
Change in net unrealized capital gains or (losses)	(2,591)	8,128	2,272	(7,369)	11,743
Change in net deferred income tax	3,238	(59,296)	(51,417)	(48,490)	19,360
Change in non-admitted assets	8,239	63,701	51,764	44,466	(13,512)
Dividends to Stockholders	(2,400,000)				
Change in surplus as regards policyholders for the year	<u>(2,074,072)</u>	<u>163,352</u>	<u>171,584</u>	<u>168,762</u>	<u>193,293</u>
Surplus as regards policyholders, December 31 current year	<u>\$3,828,621</u>	<u>\$5,902,693</u>	<u>\$5,739,342</u>	<u>\$5,567,758</u>	<u>\$5,398,996</u>

THE NOTES IMMEDIATELY FOLLOWING THE FINANCIAL STATEMENTS IN
THIS REPORT ARE AN INTEGRAL PART THEREOF.

NOTES TO FINANCIAL STATEMENTS

Analysis of Changes to Surplus: There were no adjustments made to surplus.

SUMMARY OF SIGNIFICANT FINDINGS

Claims Review – Page 15

It is recommended that the Company tender payment within 30 days in accordance with ALA. ADMIN. CODE 482-1-125.07(1)(2003), which states: “Within thirty (30) days, or the number of days specified in the policy, after receipt by the insurer of properly executed proofs of loss, the first party claimant shall be advised of the status of acceptance or denial of the claim by the insurer.”

It is recommended that the Company acknowledge claims within (15) fifteen days in accordance with ALA ADMIN CODE 482-1-125.06(2003), which requires:

(1) Every insurer, upon receiving notification of a first party claim from a first party claimant shall, within fifteen (15) days, acknowledge the receipt of such notice unless payment is made within that period of time. If an acknowledgement is made by means other than writing, an appropriate notation of the acknowledgement shall be made in the claim file of the insurer and dated. Notification given to a producer of an insurer shall be notification to the insurer. Acknowledgement by a producer of an insurer as required above shall satisfy the requirements of this paragraph.

It is recommended that the Company record the report date in its claim records as the date when the loss was first reported to the Company in accordance with ALA. CODE §27-27-29(a)(1975), which states: “Every domestic insurer shall have, and maintain its principal place of business and home office in this state and shall keep in this state complete records of its assets, transactions, and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted.”

Policyholder Complaints – Page 16

It is recommended that the Company follow its underwriting guidelines and provide its policyholders a written reason for any cancellation of coverage in accordance with ALA. CODE §27-22-42(6)(1975) which states, “Policyholders shall have the right to receive in writing from their insurance company the reason for any cancellation of coverage and a minimum number of days’ notice of cancellation of coverage, subject to applicable federal or state insurance law and regulation.”

It is recommended that the Company send delay notices to claimants in accordance with ALA. ADMIN. CODE 482-1-125.07(2003), which states:

If the insurer needs more time to determine whether a first party claim should be accepted or denied, it shall so notify the first party claimant within thirty (30) days or the time period specified in the policy after receipt of the proofs of loss, giving the reasons more time is needed. If the investigation remains incomplete, the insurer shall, forty-five (45) days from the initial notification and every forty-five (45) days thereafter, notify the first party claimant

in writing, verbally or electronically (e-mail) of the reasons additional time is needed for investigation..

Accounts and Records – Page 15

It is recommended the Company file for approval and maintain evidence of approval to file their annual audited financial statements on a consolidated basis in accordance with ALA. ADMIN. CODE 482-1-141.08(2003), which states

An insurer may make written application to the commissioner for approval to file audited consolidated or combined financial statements in lieu of separate annual audited financial statements if the insurer is part of a group of insurance companies that utilizes a pooling or 100 percent reinsurance agreement that affects the solvency and integrity of the insurer's reserves and the insurer cedes all of its direct and assumed business to the pool.

Compliance with Previous Recommendations – Page 24

It is recommended that the Company comply with all of the recommendations in this Report of Examination.

COMPLIANCE WITH PREVIOUS RECOMMENDATIONS

The examiners performed procedures to determine whether the Company complied with the recommendations in the most recent Report of Examination completed by the Alabama Department of Insurance.

In the previous report, it was recommended that the Company acknowledge claimants within fifteen days in accordance with ALA. ADMIN. CODE 482-1-1-125.06(2003). The examination indicated that the Company did not comply with the previous recommendation.

In the previous report it was recommended that the Company tender payment within 30 days in accordance with ALA. ADMIN. CODE 482-1-125.07(1)(2003). The examination indicated that the Company did not comply with the previous recommendation.

SUBSEQUENT EVENTS

The review of the events subsequent to December 31, 2014, did not reveal anything material in amount or noteworthy in nature.

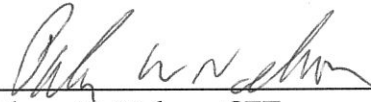
CONCLUSION

Acknowledgement is hereby made of the courtesy and cooperation extended by all persons representing Mutual Savings Fire Insurance Company during the examination.

The customary insurance examination procedures, as recommended by the National Association of Insurance Commissioners, have been followed in connection with the verification and valuation of assets and the determination of liabilities set forth in this report.

In addition to the undersigned, Regina Barnhart, Theo Goodin, MCM, Jerry Hyche, AIE, FLMI, MCM, Charles Turner, CISA, Examiners; and Harland Dyer, ASA, MAAA, Consulting Actuary; all representing the Alabama Department of Insurance, participated in the examination of Mutual Savings Fire Insurance Company.

Respectfully submitted,



Palmer W. Nelson, CFE
Examiner-in-charge
Alabama Department of Insurance